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The Conference Board

Economic Analysis Program

Survey Of Financial Indicators

Volume 1, Number 2 October 1987

Introductory Note: This is the twenty-third issue of a semiannual Conference Board survey of a panel of senior financial executives of leading U.S. non-financial corporations. The survey reports the executives' financing plans based on their economic and financial expectations.

The survey of senior financial executives took place during September, 1987, a period in which the Federal Reserve raised the discount rate and pressures on long-term interest rates started to mount, leading some analysts to look for a slowdown in economic activity in 1988. Nevertheless, the 24 senior financial executives who participated in the survey continue to be optimistic about 1988. They predict that

- The U.S. economy will grow at an average rate of 2.7 percent in 1988;
- Inflation will average 4.1 percent and there will be some upward pressure on interest rates;
- Major currencies will continue to strengthen against the U.S. dollar;
- Corporate profits will rise by slightly more than 16 percent in the coming twelve-month period: from September 1987 to September 1988.

Continued Growth in 1988:

No member of the panel of financial executives sees a recession taking place next year, and only three members anticipate a recession in 1989. Real economic growth is forecast to increase at an average of 2.7 percent in 1988, down slightly from the 3 percent rate predicted by the executives last April. They have also raised their sights on inflation, and now look for the GNP deflator to average 4.1 percent in 1988, in contrast to their prediction of 3.3 percent last April. Looking toward 1989, the executives see growth slowing to 2.1 percent. In line with this view, they see no further increase in inflation in 1989, with the deflator averaging 4 percent.

The panel foresees surprisingly little movement in interest rates, on average, over the next two years. In 1988 and 1989, the prime rate is expected to average 8.9 and 9 percent respectively, while the Aaa industrial rate averages 10.1 percent in both years. These rates are only slightly above their September 1987 levels. This compares with the usual tendency in the wake of an immediate rise in rates, as occurred in September, to project a continuation of that rise. The executives also see relatively little movement in the Dow-Jones average in 1988, with the index averaging 2627 next year.

A Profitable Year Ahead:

The year 1988 will be good for profits. According to 17 executives, profits (before-tax) should rise by an average of 16.2 percent in the coming twelve-month period, from September 1987 to September 1988, with the majority of executives looking for profits to increase from 10 to 20 percent. This average is about 1 percent below the average reported last October.

And More Internally Generated Funds:

The corporations that participate in this survey usually raise about 20 percent of their funds externally. However, in the last three surveys, including this one (October 1986–October 1987), external funds have averaged roughly 30 percent of

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PROFIT OUTLOOK
(Number of Panel Members)

	Less than 0	Zero to less than 10%	10% but less than 20%	20% but less than 30%	30% and above	Range	Average
Oct. 1985	3	8	6	3	1	(20)-40	8.3
Oct. 1986	4	5	6	1	3	(50)-232	17.4
Oct. 1987	1	2	9	4	1	(34)-100	16.2

total funds. The financing pattern for the period September 1987 to September 1988 indicates that companies are, once again, planning to rely more heavily on internal funds. Twelve members of the panel look for internal funds to rise as a percentage of total corporate funds, and nine look for increases of 10 percentage points or more.

Regarding external funds, the survey companies see new bond issues and bank term loans playing a larger role in the coming twelve months. They also see equity issues diminishing in relative importance, despite a moderately stable outlook for stock prices.

Lower Dollar:

As in the April survey, the financial executives whose companies engage in international operations see the U.S. dollar depreciating moderately against other major currencies from September 1, 1987 through the first quarter of 1988. The majority sees the British pound, the German mark and the Japanese yen appreciating by 1 to 5 percent against the dollar by the end of 1987. But, there is a division of opinion as to whether the Japanese yen will appreciate by more or less than 5 percent by the end of the first quarter of 1988. Little change is expected in the movement of the Canadian dollar against the U.S. dollar. In line with their expectations of relatively low inflation, most panel members do not look for a major change in the dollar price of gold through the first quarter of 1988.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average Dec. '87 (4th Q GNP)	Outlook: Average March '88 (1st Q GNP)	Outlook: Average 1988	Outlook: Average 1989
New Aaa industrial rate (%)	9.3	9.9	10.1	10.1	10.1
Prime rate (%)	8.3	8.7	8.9	8.9	9.0
Dow-Jones Average (Index)	2,480.0	2,671.0	2,623.0	2,627.0	2,502.0
Real GNP (%)	2.6	2.7	3.1	2.7	2.1
GNP deflator (%)	3.8	3.6	4.0	4.1	4.0

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds*	71	6	3	9	1	2
External Funds	29	6	1	2	3	9
	100%					
(b) Composition of *External Funds*						
Net new bond issues	20.3	8	2	3	0	3
Private placements	0.7	15	0	1	0	0
Net new equity	29.6	11	0	1	0	4
Bank term loans	23.8	14	0	2	0	0
Bank short-term loans	10.8	14	0	1	0	1
Commercial paper	14.7	10	0	3	1	2
Other	0.1	15	0	1	0	0
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1987:

	Latest Available	Expected Change: By December 31, 1987 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By March 31, 1988 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .76	10	9	0	2	0	12	4	2	3	0
British pound	1.63	4	13	3	2	0	5	12	3	2	0
German mark	.5510	3	14	4	0	0	3	11	7	0	0
Japanese yen	.0070	1	15	5	0	0	3	9	9	0	0
Gold	$450.60	8	7	2	1	0	7	5	5	1	0

UPCOMING MEETINGS AND CONFERENCES FOR SENIOR EXECUTIVES

Nov. 4	Zurich, Switzerland	Hotel International Zurich	International Business & Financial Outlook Conference
Nov. 17	San Francisco	The Mark Hopkins	Financial Briefing for Executives
Nov. 17	New York	The Waldorf-Astoria	Senior Executives Briefing
Nov. 24	New York	The Waldorf-Astoria	Financial Briefing for Executives
Jan. 13	New York	The Waldorf-Astoria	Mini Conference for Senior Executives
Feb. 9	New York	The Plaza	Senior Executives Briefing
Feb. 24, 25	New York	The Waldorf-Astoria	The 1988 Financial Outlook Conference
Apr. 14	San Francisco	The Fairmont Hotel	Mid-Year Business Outlook Conference
May 19	Chicago	The Ritz Carlton	Financial Briefing for Executives
Oct. 6	New York	The Waldorf-Astoria	1989 Business Outlook Conference

The Conference Board

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The Conference Board

Economic and Business Environment Program

Survey Of Financial Indicators

Volume 1, Number 3 April 1988

Introductory Note: This is the twenty-fourth issue of a semiannual Conference Board survey of a panel of senior financial executives of leading U.S. nonfinancial corporations. The survey reports the executives' financing plans based on their economic and financial expectations.

In the April 1988 survey, the first forecast since the October 1987 stock market decline, 28 senior financial executives predicted that:

- The U.S. economy will grow at a moderate pace both in 1988 and 1989, with real growth averaging 2.5 percent and 2.4 percent, respectively.
- Inflation rates will rise, both in the short-term and during the five-year period from 1988-1992.
- Most major currencies will strengthen against the U.S. dollar—but only modestly—in the second and third quarter of 1988.

Moderate Growth Ahead:

The stock market decline has had relatively little effect on the financial executives' outlook for real growth and inflation in the United States for this year and next. In the April 1988 survey, the participants predicted an average real growth rate of 2.5 percent for 1988, down from the 2.7 percent forecast in last October's pre-crash survey. For 1989, the recent survey called for a 2.4 percent growth rate, up slightly from the 2.1 percent forecast in October 1987. The April survey participants also revised their outlook for the GNP deflator in 1988—to 3.4 percent, compared to 4.1 percent last October. The outlook for recession did not vary from last October's survey; none of the panel members predicted a recession for 1988, three look to one in 1989.

The October stock market decline appears to have had a more important effect on the financial executives' outlook for interest rates, however. Panel members lowered their interest rate forecasts for both the Aaa bond rate and the prime rate. Last October, they were expecting the Aaa rate to average 10.1 percent in both 1988 and 1989 and the prime rate to average roughly 9 percent in both years. In line with their inflation outlook—and with the sharp decline in interest rates that took place in October, 1987—they now see the Aaa rate averaging 9.3 percent this year, rising to 9.6 percent in 1989. The prime rate forecast follows a similar pattern, averaging 8.4 percent in 1988 and rising to an average of 8.7 percent the following year.

But Less Corporate Use of Stocks and Bonds:

In the October survey, the survey participants revealed that they planned to rely more heavily on internally generated funds and they have done so. External funds, which had averaged roughly 30 percent of total corporate funds in the three

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preceding surveys, fell to roughly 22 percent of total funds in the April survey. The participating companies now plan to reduce their reliance on net new equity issues and net new bond issues somewhat during the 12-month period beginning March 1, 1988. They also plan to continue to rely heavily on internally generated funds.

Higher Inflation Ahead:

The April 1987 survey—the last survey in which the panel gave its five-year outlook for inflation—noted that "following two large drops in expected inflation... expectations of inflation are nearing a point of inflection." This year's survey confirms this observation. According to the 21 executives who gave a five-year outlook, the GNP deflator would average 4.8 percent per year from 1988 to 1992—nearly one full percentage point above their outlook last April. The panel's outlook for the next two years (3.4 percent and 4.0 percent) implies that the GNP deflator will average roughly 5.5 percent in 1990-1992.

THE PANEL'S OUTLOOK FOR INFLATION

Number of Panel Members

	Less than 4 percent	4 percent but less than 5 percent	5 percent but less than 6 percent	6 percent but less than 7 percent	7 percent and above	Range	Average
April 1983	1	5	15	6	4	2.5-8.2	5.6
April 1984	1	2	9	19	4	3.5-7.1	5.9
April 1985	4	15	14	4	0	2.8-6.5	4.8
April 1986	9	13	2	2	0	2.5-6.5	4.1
April 1987	11	10	1	0	1	2.0-8.0	3.9
April 1988	1	9	9	1	1	2.8-8.0	4.8

A Weak U.S. Dollar in 1988:

The majority of executives whose companies engage in international operations see the British pound, German mark and Japanese yen—in both forecast periods—strengthening by 1 percent to 5 percent against the U.S. dollar from its exchange value as of March 1, 1988. Executives who expect the Canadian dollar to appreciate outnumber those who anticipate a weakening against the U.S. dollar, in the forecast periods that end June 30, 1988 and September 30, 1988 And the majority look for the dollar price of gold to increase by June 30 and by September 1988.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average June '88 (2nd Q GNP)	Outlook: Average Sept. '88 (3rd Q GNP)	Outlook: Average 1988	Outlook: Average 1989
New Aaa industrial rate (%)	9.4	9.6	9.3	9.3	9.6
Prime rate (%)	8.5	8.4	8.4	8.4	8.7
Dow-Jones Average (Index)	1947.0	2059.0	2076.0	2039.0	1873.0
Real GNP (%)	4.2	2.0	2.5	2.5	2.4
GNP deflator (%)	2.7	3.4	3.7	3.4	4.0

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A: Actual (past 12 months)	B: Outlook (coming 12 months)—Number of Respondents: Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of *Total* Funds						
Internal Funds*	78	9	1	9	1	5
External Funds	22	9	1	5	1	9
	100%					
(b) Composition of *External Funds*						
Net new bond issues	27.5	9	0	3	1	6
Private placements	1.0	16	0	3	0	0
Net new equity	18.4	12	0	1	1	5
Bank term loans	7.5	17	0	3	0	0
Bank short-term loans	12.1	11	0	3	0	3
Commercial paper	29.6	12	1	3	1	2
Other	3.9	15	0	3	0	1
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1988 :

	Latest Available	Expected Change: By June 30, 1988: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By Sept. 30, 1988: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .79	9	11	0	5	0	7	11	0	7	0
British pound	1.77	4	13	2	5	1	4	7	5	8	1
German mark	.5924	3	17	2	3	0	3	11	5	5	1
Japanese yen	.0078	1	19	2	3	0	2	10	7	3	3
Gold	$426.15	3	12	0	4	3	3	10	2	5	2

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Apr. 14	San Francisco	The Fairmont Hotel	Mid-Year Business Outlook Conference
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Sept. 23	New York	The Plaza Hotel	Senior Executive Briefing
Oct. 6	New York	The Waldorf-Astoria	1989 Business Outlook Conference
Nov. 10	San Francisco	The Mark-Hopkins	Financial Briefing for Executives
Nov. 17	New York	The Plaza	Financial Briefing for Executives
Nov. 23	Brussels, Belgium	Generale de Banque	International Business & Financial Outlook Conference

The Conference Board

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